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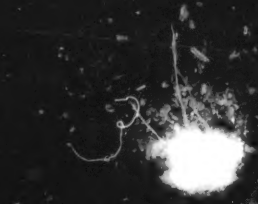
Annual Report 1988



NEWFOUNDLAND
LIQUOR
CORPORATION

93-02659/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honourable H. Neil Windsor, P.Eng.
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland
A1C 5T7

Dear Mr. Minister:

I am pleased to submit the 15th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1988 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, C.M.A.
President.

P.O. BOX 8750, STATION "A", KENMOUNT ROAD, NEWFOUNDLAND A1B 3V1 . TELEPHONE (709) 754-1100

During the fiscal year ended March 31, 1988, the Corporation realized a net income of $77,353,008, an increase of $4,944,377 over the previous year.

This income was derived from two sources:

1. $38,545,650 from sale of spirits, wines and beer through Corporation liquor stores and liquor agency stores; and,

2. $38,807,358 through the collection of a Corporation mark-up on local beer.

Corporation liquor store and agency store operations resulted in sales of $90,052,795, an increase of $4,050,079 over the previous year. Income from beer commissions totalled $38,807,358, an increase of $2,209,273 over the previous year. Operating and administrative expenses for 1987-88 totalled $12,487,614, an increase of $837,075 over the previous year.

During 1987-88 the Corporation continued to enhance its computerized information systems and processing methods. Additional disk storage was added during the year, and new on-line Inventory Management and Sales Analysis Systems were designed and tested for implementation into production on April 1, 1988.

The Collective Agreement between the Corporation and the Newfoundland Association of Public Employees expired on March 31, 1988. Contract talks for a new Agreement are not scheduled to commence until well into the 1988-89 fiscal year.

The Internal Audit Department continued to analyze systems and test for compliance to existing policies and procedures, so that management could measure their performance of meeting the objective of operating an efficient and effective Corporation.

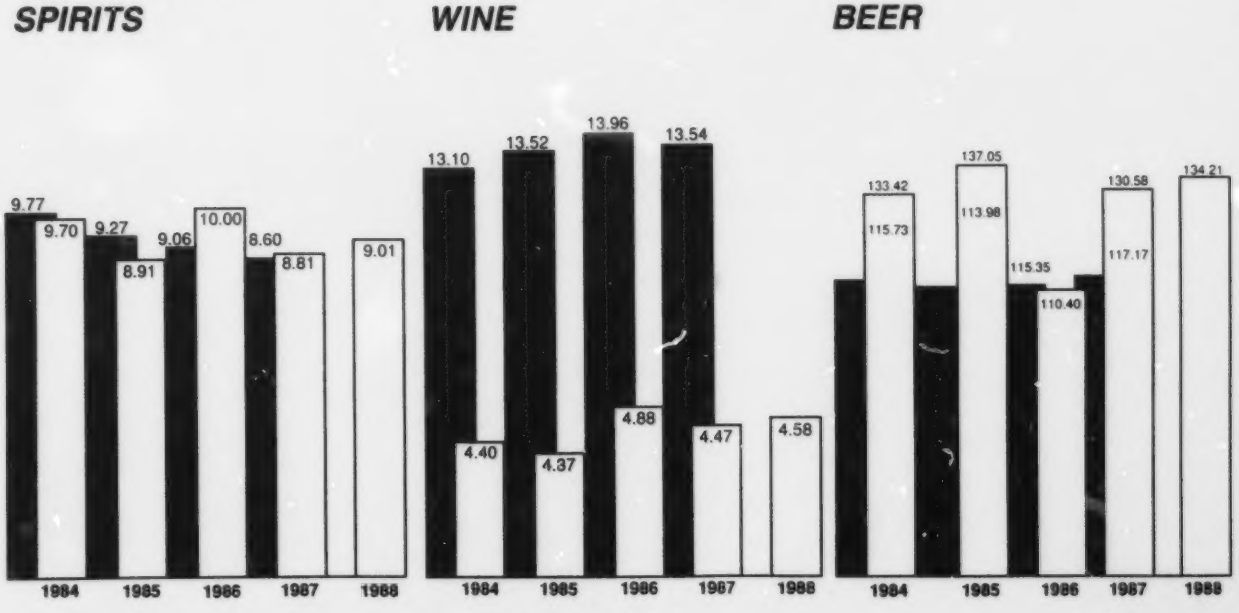
The retail distribution system was expanded to include additional agency stores at Green's Harbour, Port Rexton, St. Mary's and Torbay while new operators were appointed and the agency stores were relocated in Manuels, Rocky Harbour, Ferryland and Twillingate.

Renovations were completed at the Grand Falls, Happy Valley, Harbour Grace and Bay Roberts stores; renovations were started at both Corner Brook stores and tenders were called for space for a larger liquor store in Mount Pearl. Several agency stores also renovated and improved their premises.

Per Capita Consumption

Litres
Fiscal year ended March 31, 1988
By population 19 years of age and over

Provincial Average
National Average



The decrease in beer and the increase in spirits and wine for 1986 was due to 7½ month labour dispute in the Brewing industry.

The Performance Appraisal System, the Manpower Productivity and Audit Reports provided objective feedback to store employees regarding their performance levels and highlighted areas requiring extra emphasis. There was a very satisfactory 16% reduction in store shortages resulting from increased efforts by store staff and the use of sophisticated monitoring equipment where warranted in a few problem areas.

Staff training in management techniques and product knowledge continued to receive priority with all members of store management participating in Corporation seminars. In the area of in-store safety training, store managers received instruction in fire prevention and handling, and a safety footwear policy was instituted for all staff. Corporation employees continued to take advantage of training programs (both internal and external) to upgrade their skills and abilities.

The Corporation's delisting quotas were revised to ensure that a balanced selection of brands continued to be available to the public. Sales of delisted and slow moving brands were held to deplete inventories quickly and make room for new products. Increased use of in-store displays, a wider variety of promotions and the addition of a number of brands in the fast-growing cooler and schnapps categories, allowed the Corporation to capitalize on some emerging trends in the market place.

The selection of specialty wines available was updated and a substantial number of new products were ordered, including several quality Australian wines purchased in conjunction with other Atlantic liquor boards. The sale of Beaujolais Nouveau continued to be successful with an expanded selection of brands being made available and an increase in the positive media coverage which the Corporation was able to obtain.

The Corporation continued its efforts to ensure that high quality standards were maintained for all products available in its stores. While several products were removed either temporarily or permanently from the shelves, the monitoring stystem in place protected the marketplace from major product defects.

Sales of spirits in the rest of Canada declined by 2.5% (excluding spirit coolers); however, sales of locally bottled products to the Canadian market increased by just over 1% to 37,622 cases. Some equipment problems were encountered in the bottling plant, particularly with bulk filtering and labelling machinery, and there were also chronic and unforeseen delays in shipping out of the Caribbean, resulting in a lack of bulk spirits when required. Despite these setbacks, inventory levels were adjusted so that there were no out of stock positions, and the problems were overcome with the installation of new filtering equipment, the development of new transportation routes and the planned replacement of the labelling equipment and the expansion of bulk storage capacity in 1988-89. Efforts are also underway to renew and establish new contracts for bottling additional products for other companies.

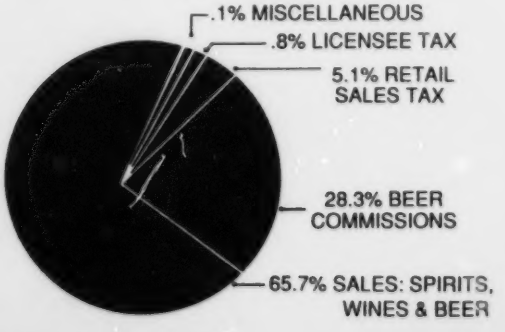
New bottle coding equipment was installed in the Bottling Plant so that easy identification can be made of any product in the event of a product recall because of a defect.

A new package for "Screech" was released in the form of a miniature barrel which has a ceramic liner. The "Screech" barrel has proved to be a popular gift item and was designed and produced by local crafts people. A new product "Charenac" Brandy was launched and was an instant success in its category.

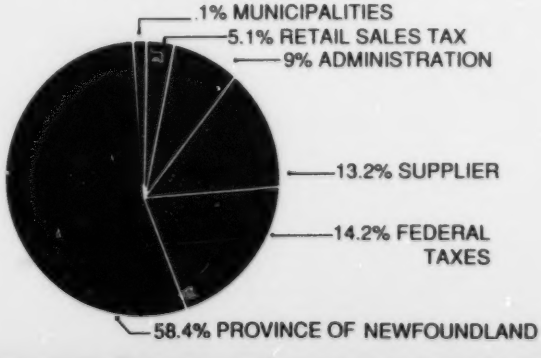
The warehouse which was reorganized in 1987 continues to operate smoothly and its efficiency was further enhanced by the installation of two hydraulic ramps in the loading bays. A program of consolidating orders with the other Atlantic provinces for small shipments from distant countries has been working well and has reduced freight costs from these locations.

The Corporation gratefully acknowledges the efforts and co-operation of the employees and the support of the Board of Directors.

SOURCE OF REVENUE



APPLICATION OF REVENUE



Auditor's Report

To the President and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have examined the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1988 and the statements of income, retained earnings and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at 31 March 1988 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J.F. McGrath, C.A.
Auditor General

St. John's, Newfoundland
16 September 1988

Balance Sheet, March 31, 1988

Assets

	1988	1987
Current Assets		
Cash	$ 5,029,490	$ 9,149,080
Accounts receivable (Note 2)	575,283	545,908
Beer commissions receivable	3,632,440	2,830,692
Inventories, at cost (Note 3)	14,366,027	14,811,508
Prepaid expenses	157,011	117,968
Total current assets	23,760,251	27,455,156
Fixed assets, at cost less accumulated depreciation (Note 4)	2,179,601	2,151,962
Assets under capital lease, at cost less accumulated amortization of $128,686 ($68,853 — 1987)	190,051	209,542
Other assets, at cost less accumulated amortization (Note 5)	604,583	508,976
Total assets	$26,734,486	$30,325,636

Liabilities and Retained Earnings

	1988	1987
Current Liabilities		
Accounts payable	$3,366,057	$3,403,477
Accrued liabilities	3,720,954	4,212,828
Current portion of obligation under capital lease (Note 6)	67,008	47,465
Current portion of long-term debt (Note 7)	400,000	400,000
Total current liabilities	7,554,019	8,063,770
Obligation under capital lease (Note 6)	147,150	181,557
Long-term debt (Note 7)	1,000,000	1,400,000
	8,701,169	9,645,327
Retained earnings		
Due to Province of Newfoundland	18,033,317	20,680,309
Total liabilities and retained earnings	$26,734,486	$30,325,636

See accompanying notes

Signed on behalf of the Board

President

Director

Statement of Retained Earnings
For the Year Ended March 31, 1988

	1988	1987
Balance, beginning of year	$20,680,309	$21,271,678
Net income for the year	77,353,008	72,408,631
	98,033,317	93,680,309
Payments to the Province of Newfoundland	80,000,000	73,000,000
Balance, end of year	$18,033,317	$20,680,309

See accompanying notes

Statement of Income
For the Year Ended March 31, 1988

	1988	1987
Sales	$90,052,795	$86,002,716
Cost of goods sold		
Inventory, beginning of year	14,811,508	13,487,643
Purchases	39,778,832	40,939,469
Cost of goods available for sale	54,590,340	54,427,112
Less: Inventory, end of year	14,366,028	14,811,508
	40,224,312	39,615,604
Gross profit	49,828,483	46,387,112
Other operating income		
Commission on licensee purchases	1,086,237	979,039
Miscellaneous	118,544	94,934
	1,204,781	1,073,973
	51,033,264	47,461,085
Administrative and operating expenses (Schedule I)	12,487,614	11,650,539
Net income from liquor store operations	38,545,650	35,810,546
Commission revenue on sale of beer	38,807,358	36,598,085
Net income for the year	$77,353,008	$72,408,631

See accompanying notes

Statement of Changes in Cash Position

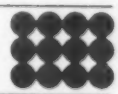
Year Ended March 31, 1988

	1988	1987
Cash provided by (used in) operating activities		
Net income from liquor store operations	$38,545,650	$35,810,546
Commission revenue from sale of beer	38,807,358	36,598,085
Add items of non-cash nature		
Depreciation	302,718	324,809
Amortization	265,016	182,069
Loss (gain) on disposal of fixed assets	(3,088)	(5,354)
Changes in non-cash working capital	(934,436)	159,404
	76,983,218	73,069,559
Deduct: Payments to the Province of Newfoundland	80,000,000	73,000,000
	(3,016,782)	69,559
Cash provide by (used in) financing activities		
fincancing activities		
Proceeds from disposal of fixed assets	3,790	5,659
Proceeds from capital lease	40,342	4,468
Payments under capital lease (including current portion)	(74,749)	(47,945)
Repayments of long-term debentures (including current portion)	(400,000)	(400,000)
	(430,617)	(437,818)
Cash provided by (used in) investing activities		
Additions to fixed assets	(331,057)	(294,683)
Additions to assets under capital lease	(40,342)	(4,468)
Additons to other assets	(300,792)	(186,863)
	(672,191)	(486,014)
Increase (decrease) in cash position during the year	(4,119,590)	(854,273)
Cash, beginning of year	9,149,080	10,003,353
Cash, end of year	$5,029,490	$9,149,080

Administrative and Operating Expenses

Year Ended March 31, 1988

	1988	1987
Salaries and employee benefits	$6,777,965	$ 6,196,089
Rent	751,079	708,921
Freight to stores	268,829	293,432
Agency store commissions and expenses	1,765,842	1,631,546
Municipal and school tax	93,881	123,365
Travel	128,435	126,591
Heat and light	288,502	288,575
Cleaning	171,820	154,297
Communications	141,811	132,621
Advertising	12,185	18,291
Computer services	50,541	64,721
Directors' fees and expenses	8,807	10,179
Interest and bank charges	31,636	28,219
Motor vehicle expenses	2,466	2,416
Consultants' fees	92,370	112,782
Security	65,057	75,021
Store supplies and wrapping	95,826	81,065
Stationery and office supplies	130,092	121,326
Postage	36,984	27,179
Repairs and maintenance	327,105	305,949
Inventory breakage and shortage	103,061	145,564
Marketing	132,173	74,643
Dues and subscriptions	8,276	9,504
Insurance	42,821	39,343
Professional fees	11,233	6,620
Depreciation	262,968	246,047
Amortization	265,016	182,069
Uniforms	59,119	52,068
Staff recruitment	4,937	7,319
Staff training	74,227	77,743
Miscellaneous	38,762	23,144
Labour negotiations and grievances	148	1,252
Loss (gain) on disposal of fixed assets	(3,088)	(5,354)
Bad debt expense	11,481	654
Interest on long term debt	235,247	287,338
	$12,487,614	$11,650,539



1. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on a straight line basis at the rates indicated in Note 4.

Depreciation is recorded on a monthly basis with depreciation of an asset commencing in the month of acquisition and ending in the month prior to disposal.

The Blending Department's share of depreciation and amortization expense amounting to $47,934 ($78,762 — 1987) is allocated to cost of goods sold.

(b) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

Following is a schedule of amortization of leasehold improvements by location:

	1988	1987
Head office	$ 60,414	$ 41,271
Other locations	136,407	77,277
	$196,821	$118,548

(c) Interest in leased land as described in Note 5 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1988 was $8,364 ($8,364 — 1987).

(d) The equipment under the capital lease is amortized on a straight line basis over the term of the lease. The amount charged to operations in 1988 was $59,833 ($55,157 — 1987)

(e) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts were included in accrued liabilities:

	1988	1987
Customs duty	$ 1,662,922	$ 1,867,537
Excise duty	1,071,294	911,589
Federal Sales Tax	400,962	535,926
	$ 3,135,178	$ 3,315,052

(f) The Corporation is a Crown Corporation and is therefore not subject to either Provincial or Federal income taxes.

2. Accounts receivable

	1988	1987
Trade	$ 402,523	$ 363,310
Claims	155,299	103,276
Other	30,050	84,673
	587,872	551,259
Less: Allowance for doubtful accounts	12,589	5,351
	$ 575,283	$ 545,908

3. Inventories

	1988	1987
Raw materials	$ 999,570	$ 508,317
Head office inventory	4,995,579	4,264,341
Branch stores inventory	4,695,987	3,957,022
Stock in transit	933,072	1,287,847
Finished goods	2,741,819	4,793,981
	$14,366,027	$14,811,508

4. Fixed assets

	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value 1988	Net Book Value 1987
Land	—	$ 190,281	$ —	$ 190,281	$ 190,281
Buildings	5%	2,350,213	998,856	1,351,357	1,422,412
Store equipment and fixtures	20%	794,052	588,888	205,164	132,064
Motor vehicle	33⅓%	15,426	9,006	6,420	11,567
Office furniture and equipment	10% and 20%	617,055	400,300	216,755	222,634
Plant and warehouse equipment	20% and 33⅓%	1,226,375	1,016,751	209,624	173,004
		$ 5,193,402	$ 3,013,801	$ 2,179,601	$ 2,151,962

5. Other assets

	Cost	Accumulated Amortization	Net Book Value 1988	Net Book Value 1987
Leasehold improvements	$ 2,576,973	$ 2,163,100	$ 413,873	$ 309,902
Leased land	248,925	58,215	190,710	199,074
	$ 2,825,898	$ 2,221,315	$ 604,583	$ 508,976

The land is leased over an initial 30 year period at an annual rental of $4,800 with options to renew for an additional 140 years.

6. Obligations under capital lease

The following is a schedule of future minimum lease payments under the capital lease expiring 12 January 1991 together with the balance of the obligation under capital lease:

Year ending 31 March	
1989	$ 96,096
1990	96,096
1991	75,398
Total minimum lease payments	$ 267,590
Less: Amount representing interest	53,432
Current portion	67,008
	$ 147,150

7. Long-term debt

	1988	1987
A 12¼%, $2,000,000 debenture, issued to the National Trust Company Limited as Trustee for Prudential Insurance Company of America repayable in ten equal consecutive annual principal installments of $200,000 commencing on 30 June 1984 and semi-annual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	$ 1,200,000	$ 1,400,000
An 11⅞%, $1,000,000 debenture, initially issued to the Mutual Life Assurance Company of Canada and presently held by Lake & Co., repayable in five equal consecutive annual principal installments of $200,000 commencing on 27 March 1985 and semi-annual interest payments on 27 March and 27 September, commencing 27 September 1984. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	200,000	400,000
	1,400,000	1,800,000
Less: Current portion	400,000	400,000
	$ 1,000,000	$ 1,400,000

8. Related party transactions

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, B.L.C. Building Corporation Limited; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Public Works and Services; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

9. Lease commitments

The Corporation has leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

1989	$ 513,843
1990	429,321
1991	308,891
1992	253,724
1993	173,109
	$ 1,678,888

10. Pensions

The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to The Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire.

BOARD OF DIRECTORS

Douglas M. Chafe, C.M.A., F.S.M.A.C.
President

Keith Griffiths
Vice-President, Operations

A.L. White, P.Eng.
Director
(Representing Government of Newfoundland,
Treasury Board)

Gilbert C. Gill, C.A.
Director
(Representing Government of Newfoundland,
Dept. of Finance)

Edward White
Director
(Chairman, Newfoundland Liquor Licencing Board)

Charles W. White, Q.C.
Director

Edward P. Poole, Q.C.
Director

Brenda Billard
Director